

AUDITED FINANCIAL STATEMENTS

VILLAGE OF KENT CITY, MICHIGAN

February 28, 2006

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Kent City	County Kent
Audit Date 2-28-2006	Opinion Date 5-9-2006	Date Accountant Report Submitted to State: 6-9-2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

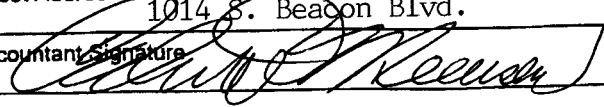
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1930).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Calvin D. Meeusen, C.P.A., PLLC			
Street Address 1014 S. Beacon Blvd.	City Grand Haven	State MI	ZIP 49417
Accountant Signature 			

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CALVIN D. MEEUSEN, C.P.A., PLLC

CALVIN D. MEEUSEN

CERTIFIED PUBLIC ACCOUNTANT

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT

To the Village Council
Village of Kent City, Michigan

I have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Kent City, Michigan (the Village) as of and for the year ended February 28, 2006, which, collectively, comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

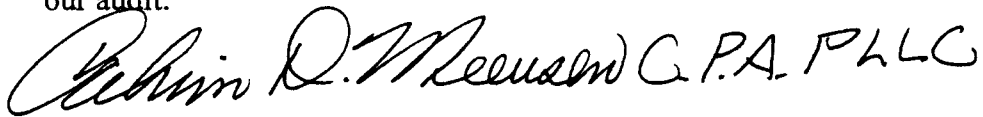
In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Village, as of February 28, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, I did not audit the information and express no opinion on it.

The accompanying required supplemental information, as identified in the table of contents, are not required parts of the basic financial statements. The required supplemental information is information required by the Governmental Accounting Standards Board. My audit was conducted

for the purpose of forming opinions on the financial statements that collectively comprise the Village of Kent City basic financial statements. The required supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, I have also issued my report dated May 9, 2006, on my consideration of the Village of Kent City, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

 Calvin D. Meeusen C.P.A. PLLC

Calvin D. Meeusen, C.P.A., PLLC
Grand Haven, Michigan
May 9, 2006

Village of Kent City

Management's Discussion and Analysis

February 28, 2006

Using this Management's Discussion and Analysis

This annual report is intended to supplement the Village's financial statements for fiscal year ending February 28, 2006. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. Fund financial statements (i.e. the Statement of Governmental Fund Revenue, Expenditures and changes in Fund Balance and the Governmental Fund Balance Sheet) tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements.

The Village as a Whole

The Village's total net assets are \$2,297,908 as of February 28, 2006. Unrestricted net assets, which represents net assets that can be used to finance day to day operations, comprise 24.6% of that total. The current level of unrestricted net assets for our governmental activities stands at \$565,388 or about 184% of current year operating expenditures.

Government-Wide Financial Analysis:

The first table presented is a summary of the government-wide statement of net assets for the Village. The net assets may be used as an indicator of a government's financial health. As of February 28, 2006, the Village's net assets from governmental activities totaled \$837,171 (36%) and \$1,460,737 (64%) from business-type activities, creating a total government-wide net asset total of \$2,297,908.

In examining the composition of these net assets, the reader should note that governmental activities net assets are primarily invested in capital assets (i.e., bridges, buildings, land, vehicles, equipment, etc.) These assets are used to provide services to the residents and they are not available to pay salaries, operational expenses, or fund capital projects.

Table 1
Village of Kent City Net Assets

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<u>Assets</u>						
Current and other assets	\$583,232	\$539,192	\$250,180	\$203,722	\$833,412	\$742,914
Restricted	-	-	220,894	195,714	220,894	195,714

Village of Kent City

Management's Discussion and Analysis

February 28, 2006

Table 1- Village of Kent City Net Assets-continued

	Governmental Activities		Business-Type Activities		Total	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Capital assets, net of accumulated depreciation	<u>271,783</u>	<u>240,356</u>	<u>3,078,001</u>	<u>3,200,613</u>	<u>3,349,784</u>	<u>3,440,969</u>
Total	855,015	779,548	3,549,075	3,600,049	4,404,090	4,379,597
<u>Liabilities</u>						
Current	17,844	15,247	100,338	102,558	118,182	117,805
Noncurrent	-	-	1,988,000	2,058,000	1,988,000	2,058,000
Total	17,844	15,247	2,088,338	2,160,558	2,106,182	2,175,805
<u>Net Assets</u>						
Capital Assets, Net of Debt	271,783	240,356	1,020,001	1,072,613	1,291,784	1,312,969
Restricted	-	-	220,894	195,714	220,894	195,714
Unrestricted	<u>565,388</u>	<u>523,945</u>	<u>219,842</u>	<u>171,164</u>	<u>785,230</u>	<u>695,109</u>
Total net assets	<u>\$837,171</u>	<u>\$764,301</u>	<u>\$1,460,737</u>	<u>\$1,439,491</u>	<u>\$2,297,908</u>	<u>\$2,203,792</u>

The Village's net assets continue to remain healthy. The Village has enough unrestricted cash on hand at the end of the year to fund normal operating expenses in similar circumstances for the next 12 months.

Governmental Activities

Governmental activities increased the Village's net assets by \$72,870, accounting for 77% of the total growth in net assets. Table 2 depicts this occurrence which will be discussed in more detail later in this analysis.

The Village's total revenues in the General Fund increased by approximately 6.8%, primarily due to an increase in taxes revenues. Bank interest rates have modestly increased this year.

Expenses increased modestly during the year except for public safety. Public safety increased approximately 62% due to our contribution for the School Resource Officer Program. This 4-year program operates through the Kent County Sheriff's Department on a cost sharing arrangement with Tyrone Township and the Kent City Intermediate School District. A portion of the health insurance was allocated to the Sewer Fund.

Business-Type Activities

The Village's business-type activities consist of the Sewer Fund. Revenues for the Sewer Fund activities were \$274,809, a decrease of 9.2%. The decrease is primarily attributable to decreased revenues from

Village of Kent City

Management's Discussion and Analysis

February 28, 2006

Business-Type Activities-continued

connection fees. The decrease in connection fees is the result of economic conditions, and to the decrease in the sewer rates and charges that were adjusted due to a lawsuit that was settled in February, 2005. We provide sewage treatment to approximately 99% of village residents through the Village of Kent City wastewater treatment plant.

At the end of the fiscal year, the net assets for business-type activities increased by \$21,246

Table 2
Village of Kent City Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<u>Revenues</u>						
Program						
Charges for Services	\$ 21,062	\$ 19,042	\$ 274,809	\$ 302,815	\$ 295,871	\$ 321,857
General						
Property taxes	171,362	153,378	-	-	171,362	153,378
State revenue sharing	170,459	173,308	-	-	170,459	173,308
Investment earnings	8,987	3,782	11,753	4,022	20,740	7,804
Miscellaneous	7,830	10,571	2,355	1,798	10,185	12,369
Total	<u>379,700</u>	<u>360,081</u>	<u>288,917</u>	<u>308,635</u>	<u>668,617</u>	<u>668,716</u>
<u>Expenses</u>						
Legislative	16,086	25,349	-	-	16,086	25,349
General government	60,043	57,804	-	-	60,043	57,804
Public safety	43,055	45,206	-	-	43,055	45,206
Public works	161,140	130,154	-	-	161,140	130,154
Other	26,506	30,678	-	-	26,506	30,678
Sewer fund	-	-	267,671	312,369	267,671	312,369
Total	<u>306,830</u>	<u>289,191</u>	<u>267,671</u>	<u>312,369</u>	<u>574,501</u>	<u>601,560</u>
Increase (Decrease) in						
Net Assets	72,870	70,890	21,246	(3,734)	94,116	67,156
Net Assets -						
Beginning of Year	<u>764,301</u>	<u>693,411</u>	<u>1,439,491</u>	<u>1,443,225</u>	<u>2,203,792</u>	<u>2,136,636</u>
Net Assets -						
End of Year	<u>\$ 837,171</u>	<u>\$764,301</u>	<u>\$1,460,737</u>	<u>\$1,439,491</u>	<u>\$2,297,908</u>	<u>\$2,203,792</u>

Village of Kent City

Management's Discussion and Analysis

February 28, 2006

The Village's Funds

An analysis of the Village's major funds begins on page 12 following the entity wide financial statements. The fund financial statements provide detailed information about the significant funds, not the Village as a whole. The Village Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The Village's major funds include the General Fund, Major Streets, Local Streets, Sewer Fund and the Downtown Development Authority.

The General Fund pays the Village's general operating expenditures, the most significant of which are General Government, Public Safety and Public Works.

General Fund Budgetary Highlights

As in past years, the Village Council monitors the budget on a monthly basis. Over the course of the year, the Village Council amended the budget to take into account events during the year. Village expenditures overall stayed below budget, resulting in total expenditures of \$249,315, which was \$47,378 below budget. The General Fund's fund balance increased from \$152,515 a year ago to \$172,943 at February 28, 2006. The budget amendments were relatively modest in amount, comprising a 8.3% increase to the original budget.

Capital Asset and Debt Administration

At February 28, 2006 the Village had \$3,349,784 (net of accumulated depreciation of \$1,935,539) invested in a broad range of capital assets including land, land improvements, sewer system, buildings and machinery and equipment. We continue to make payments on the two sewer revenue bonds that were issued in 1998 for wastewater collection and treatment system improvements in accordance with the Schedule of Indebtedness. All of the payments were paid on time.

Economic Factors and Next Year's Budgets and Rates

The Village's budget for the next fiscal year projects property taxes to increase by approximately 10% due to increases in property values and newly assessed residential properties from housing developments. State revenue sharing allocations are a budgetary concern at this time. The State of Michigan has experienced significant budgeting problems and as they look for solutions, state shared revenues may decrease. The amount of revenue sharing is uncertain at this time but is expected to approximate last year's amount. Salaries are normally the largest total expenditure of all funds and represented approximately 20% of this year's total budget. The two largest expenditures were Contracted Services and Capital Outlay which consisted primarily of scheduled street repairs and the purchase of a new one (1) ton truck. The Sewer Fund can expect additional expenses for replacement of deteriorated sewer valves and is projected to be completed when future sewer capacity issues are addressed. The health insurance will continue to be shared between the General Fund and Sewer Fund.

Village of Kent City

Management's Discussion and Analysis

February 28, 2006

Contacting the Village's Management

This financial report is intended to provide our citizens, taxpayers, customers and other interested parties with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact us at (616) 678-7232.

Village of Kent City

STATEMENT OF NET ASSETS

February 28, 2006

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash	\$ 533,489	230,296	763,785
Cash-restricted	-	220,894	220,894
Receivables			
Taxes	20,082	19,884	39,966
Due from state	29,661	-	29,661
Capital assets, net	<u>271,783</u>	<u>3,078,001</u>	<u>3,349,784</u>
Total assets	<u>855,015</u>	<u>3,549,075</u>	<u>4,404,090</u>
LIABILITIES			
Accounts payable	17,844	-	17,844
Accrued interest	-	30,338	30,338
Non-current liabilities			
Bonds due within one year	-	70,000	70,000
Bonds due in more than one year	<u>-</u>	<u>1,988,000</u>	<u>1,988,000</u>
Total liabilities	<u>17,844</u>	<u>2,088,338</u>	<u>2,106,182</u>
NET ASSETS			
Invested in capital assets			
net of related debt	271,783	1,020,001	1,291,784
Restricted for:			
Debt service	-	220,894	220,894
Unrestricted	<u>565,388</u>	<u>219,842</u>	<u>785,230</u>
Total Net Assets	<u>837,171</u>	<u>1,460,737</u>	<u>2,297,908</u>

The Notes to Financial Statements are an integral part of this statement.

Village of Kent City

STATEMENT OF ACTIVITIES

Year ended February 28, 2006

	Program Revenue		Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for services	Governmental activities	Business-type activities	Total
Primary Government					
Governmental activities					
Legislative	16,086	-	(16,086)	-	(16,086)
General government	60,043	3,315	(56,728)	-	(56,728)
Public safety	43,055	1,620	(41,435)	-	(41,435)
Public works	161,140	16,127	(145,013)	-	(145,013)
Other governmental functions	<u>26,506</u>	<u>-</u>	<u>(26,506)</u>	<u>-</u>	<u>(26,506)</u>
Total governmental activities	306,830	21,062	(285,768)	-	(285,768)
Business-type activities					
Sewer	<u>267,671</u>	<u>274,809</u>	<u>-</u>	<u>7,138</u>	<u>7,138</u>
Total business-type activities	<u>267,671</u>	<u>274,809</u>	<u>-</u>	<u>7,138</u>	<u>7,138</u>
Total primary government	<u>574,501</u>	<u>295,871</u>	<u>(285,768)</u>	<u>7,138</u>	<u>(278,630)</u>
General revenues					
Property taxes			171,362	-	171,362
State revenue sharing			170,459	-	170,459
Unrestricted investment earnings			8,987	11,753	20,740
Miscellaneous			<u>7,830</u>	<u>2,355</u>	<u>10,185</u>
Total general revenue and special items			<u>358,638</u>	<u>14,108</u>	<u>372,746</u>
Change in net assets			72,870	21,246	94,116
Net assets at March 1, 2005			<u>764,301</u>	<u>1,439,491</u>	<u>2,203,792</u>
Net assets at February 28, 2006			<u>837,171</u>	<u>1,460,737</u>	<u>2,297,908</u>

The accompanying notes are an integral part of this statement.

Village of Kent City

BALANCE SHEET
GOVERNMENTAL FUNDS

February 28, 2006

	General Fund	Major Street
ASSETS		
Cash	\$162,720	\$217,608
Receivables		
Taxes	10,342	-
Due from other funds	1,831	-
Due from state	<u>15,894</u>	<u>10,775</u>
Total Assets	<u>\$190,787</u>	<u>\$228,383</u>
LIABILITIES AND FUND EQUITY		
Liabilities:		
Accounts payable	\$ 17,844	\$ -
Due to other funds	<u>-</u>	<u>338</u>
Total Liabilities	<u>17,844</u>	<u>338</u>
Fund equity:		
Fund balance		
Undesignated	<u>172,943</u>	<u>228,045</u>
Total Fund Equity	<u>172,943</u>	<u>228,045</u>
Total Liabilities and Fund Equity	<u>\$190,787</u>	<u>\$228,383</u>

The accompanying notes are an integral part of this statement.

Local Street	Downtown Development Authority	Total Governmental Funds
\$ 43,502	\$109,659	\$ 533,489
-	9,740	20,082
338	-	2,169
<u>2,992</u>	<u>-</u>	<u>29,661</u>
\$ <u>46,832</u>	\$ <u>119,399</u>	\$ <u>585,401</u>
\$ -	\$ -	\$ 17,844
<u>-</u>	<u>1,831</u>	<u>2,169</u>
<u>-</u>	<u>1,831</u>	<u>20,013</u>
<u>46,832</u>	<u>117,568</u>	<u>565,388</u>
<u>46,832</u>	<u>117,568</u>	<u>565,388</u>
\$ <u>46,832</u>	\$ <u>119,399</u>	\$ <u>585,401</u>

Village of Kent City

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS

February 28, 2006

Total fund balance-governmental funds		\$ 565,388
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Amounts reported for governmental activities in the Statement of
Net Assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the governmental funds.

Cost of capital assets	\$ 447,246	
Accumulated depreciation	<u>(175,463)</u>	<u>271,783</u>

Net assets of governmental activities in the Statement of Net Assets		\$ <u>837,171</u>
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The accompanying notes are an integral part of this statement.

Village of Kent City

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

Year ended February 28, 2006

	General Fund	Major Streets	Local Streets
Revenues:			
Taxes	\$146,508	\$ -	\$ -
State revenue	94,348	59,713	16,398
Interest and rentals	15,032	3,880	1,036
Other revenue	<u>13,855</u>	<u>3,726</u>	<u>-</u>
TOTAL REVENUES	269,743	67,319	17,434
Expenditures			
Current:			
Legislative	16,086	-	-
General government	56,795	-	-
Public safety	41,973	-	-
Public works	63,658	51,602	35,331
Other	26,506	-	-
Capital outlay	<u>44,297</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	<u>249,315</u>	<u>51,602</u>	<u>35,331</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	20,428	15,717	(17,897)
Other financing sources (uses)			
Operating transfers in	-	-	-
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	20,428	15,717	(17,897)
Fund balance - March 1	<u>152,515</u>	<u>212,328</u>	<u>64,729</u>
Fund balance - February 28	<u>\$ 172,943</u>	<u>\$228,045</u>	<u>\$ 46,832</u>

The accompanying notes are an integral part of this statement.

Downtown
Development
Authority

\$ 24,854

-

350

-

25,204

-

-

-

2,009

-

-

2,009

23,195

-

-

-

23,195

94,373

\$ 117,568

Total
Governmental
Funds

\$ 171,362

170,459

20,298

17,581

379,700

16,086

56,795

41,973

152,600

26,506

44,297

338,257

41,443

-

-

-

41,443

523,945

\$ 565,388

Village of Kent City

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended February 28, 2006

Net change in fund balances-total governmental funds: \$ 41,443

Amounts reported for governmental activities in the Statement of Activities
are different because:

Governmental funds report outlays for capital assets as expenditures
in the Statement of Activities; these costs are depreciated over their
estimated useful lives.

Depreciation expense	\$ (12,870)	
Capital outlay	<u>44,297</u>	<u>31,427</u>
Change in net assets of governmental activities		\$ <u>72,870</u>

The accompanying notes are an integral part of this statement.

Village of Kent City
STATEMENT OF NET ASSETS
PROPRIETARY FUND

February 28, 2006

ASSETS	Enterprise Fund (Sewer)
Current Assets	
Cash	\$ 230,296
Accounts receivable	<u>19,884</u>
Total current assets	250,180
Restricted Assets - Cash	220,894
Non Current Assets	
Property, plant and equipment	4,838,077
Less accumulated depreciation	<u>(1,760,076)</u>
Capital assets, net	<u>3,078,001</u>
Total Assets	\$3,549,075
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts payable	\$ -
Accrued interest	30,338
Revenue bonds payable, due within one year	<u>70,000</u>
Total current liabilities	100,338
Non Current Liabilities	
Revenue bonds payable, less amounts due in one year	<u>1,988,000</u>
Total non current liabilities	1,988,000
Net Assets	
Invested in capital assets, net of related debt	1,020,001
Reserve for revenue bond retirement	220,894
Unreserved	<u>219,842</u>
Total net assets	<u>\$1,460,737</u>

The accompanying notes are an integral part of this statement.

Village of Kent City

STATEMENT OF REVENUES AND EXPENSES
AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUND TYPE
(Sewer Fund)

Year ended February 28, 2006

Operating revenues	
Sewer service charges	\$253,590
	<u>253,590</u>
Operating expenses	
Salaries and wages	20,062
Office supplies and postage	2,564
Repairs and maintenance	7,585
Utilities	8,469
Professional services	25,926
Depreciation	122,614
Insurance	5,832
Miscellaneous	<u>1,659</u>
	<u>194,711</u>
Operating income (loss)	58,879
Non operating revenues (expenses)	
Interest income	11,753
Interest expense and fiscal charges	(72,960)
Connection and trunkage fees	17,750
Miscellaneous	<u>5,824</u>
Total non operating revenues (expenses)	<u>(37,633)</u>
Change in net assets	21,246
Total net assets - March 1	<u>1,439,491</u>
Total net assets - February 28	<u>\$1,460,737</u>

The accompanying notes are an integral part of this statement.

Village of Kent City

STATEMENT OF CASH FLOWS
Proprietary Funds
Year ended February 28, 2006

Enterprise Fund
Sewer

Cash Flows From Operating Activities	
Receipts from customers	\$ 253,854
Payments to suppliers	(53,505)
Payments to employees	<u>(20,062)</u>
Net cash provided by operating activities	180,287
Cash Flows From Noncapital Financing Activities	
Operating subsidies and transfers to other funds	-
Cash Flows From Capital and Related Financing Activities	
Trunkage and connection fees	17,750
Proceeds from the sale of fixed assets	-
Purchases of capital assets	-
Principal and interest paid on capital debt	(143,710)
Other receipts	<u>5,824</u>
Net cash (used) by capital and related financing activities	(120,136)
Cash Flows From Investing Activities	
Investment earnings	<u>11,753</u>
Net increase in cash	71,904
Cash at March 1, 2005	<u>379,286</u>
Cash at February 28, 2006	<u><u>451,190</u></u>
Reconciliation of Operating Income to Net Cash	
Provided by Operating Activities	
Operating Income (loss)	58,879
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities	
Depreciation expense	122,614
Change in Assets and Liabilities:	
Receivables-net	264
Accounts and other payables	<u>(1,470)</u>
Net Cash Provided by Operating Activities	<u><u>180,287</u></u>

The Notes to Financial Statements are an integral part of this statement.

Village of Kent City

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Village of Kent City (Village) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Village's policies are described below.

1. Reporting Entity

The Village of Kent City (Kent County) is a home rule village which operates under an elected village council form of government and provides services to its residents in many areas including public safety, highways and streets, sanitation, parks and recreation, planning and zoning and general administrative services.

2. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and user charges.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues. The Village does not allocate indirect costs.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as

NOTES TO FINANCIAL STATEMENTS-CONTINUED

February 28, 2006

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation-Continued

revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures (when applicable), expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, state revenue sharing and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Village reports the following major governmental funds:

The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Streets Special Revenue Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

The Local Streets Special Revenue Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on streets classified as local streets.

The Downtown Development Authority (a Component Unit) accounts for specific revenues set aside for the purpose of halting property value deterioration and increase property tax valuation where possible in the Downtown District, eliminate the causes of the deterioration and to provide economic growth pursuant to Act 197 of the Public Acts of Michigan of 1975, as amended. This is reported as a Special Revenue Fund.

The Village reports the following major proprietary fund:

The Sewer Fund accounts for the activities of the sewage collection system. The main source of revenue for the Sewer Fund comes from user charges.

NOTES TO FINANCIAL STATEMENTS-CONTINUED

February 28, 2006

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation-Continued

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this are charges between the Village's sewer function and various other functions of the Village, when applicable. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments, if any. Internally dedicated resources are reported as general revenue rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. Operating expenses for the proprietary fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

4. Assets, Liabilities, and Net Assets or Equity

a. Deposits and Investments

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits and savings accounts. The Village has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Village to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds. The Village has adopted an investment policy that is more restrictive than the above. See Note C2.

The Village considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS-CONTINUED

February 28, 2006

4. Assets, Liabilities, and Net Assets or Equity-Continued

b. Receivables and Payables

All outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Property taxes attach as an enforceable lien on property and are levied on July 1 and are payable through October 1. The Village bills and collects its own property taxes and does not collect taxes for any other unit of government. Uncollectable real property taxes as of the following March 1 are turned over by the Village to the County for collection. The County advances the Village all these delinquent property taxes. The Village recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to pay liabilities of the current period (60 days). The 2005 state taxable value for real and personal property of the Village totalled approximately \$19,734,000.

Collections of these taxes are accounted for in the General Fund and the Downtown Development Authority. Village property tax revenues are recognized in the period for which they are levied. The Village is permitted by law to levy taxes up to 11.4956 mills per \$1,000 of assessed valuation for general governmental services other than the payment of principal and interest on long-term debt and unlimited millage for the payment of principal and interest on long-term debt subject to a vote of the Village residents. The combined tax rate to finance general government services and payment of principal and interest on long-term debt for the year ended February 28, 2006 was 8.00 mills.

c. Restricted Assets

Certain cash accounts of the Sewer Fund are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants and Village ordinances.

d. Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of four years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Village of Kent City

NOTES TO FINANCIAL STATEMENTS-CONTINUED

February 28, 2006

4. Assets, Liabilities, and Net Assets or Equity-Continued

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements, if any, are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government is depreciated using the straight-line method over the following useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-55
Infrastructure	20-55
Land improvements	20
Equipment	5-10

e. Compensated Absences

Village employees are granted vacation and sick leave in varying amounts based on length of service. Employees must use earned vacation time in the current year and any unused benefits are forfeited. Upon termination, employees are paid for unused vacation subject to certain limitations. Sick leave is accumulated at the rate of 2 hours for each bi-weekly pay period, subject to certain conditions.

Exempt full-time employees are permitted up to five days of paid sick leave during each year. Paid sick leave benefits may accumulate from year to year to a maximum of 160 hours. Unused benefits are not convertible to cash or other benefits. It is the Village's policy to recognize the cost of sick leave at the time payments are made.

f. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net assets.

g. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Village of Kent City

NOTES TO FINANCIAL STATEMENTS-CONTINUED

February 28, 2006

4. Assets, Liabilities, and Net Assets or Equity-Continued

h. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1. Budgetary Information

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. On or about December 1, the Village President submits to the Village Council a proposed operating budget for the fiscal year commencing the following March 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to March 1, the budget is legally enacted through passage of a resolution.
- d. Village Management is authorized to transfer budgeted amounts within departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Village Council.
- e. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with generally accepted accounting principles.
- f. Appropriations for all funds lapse at the end of the fiscal year.

Budgeted amounts are as originally adopted, or as amended by the Village Council as of February 28, 2006.

2. Risk Management

The Village of Kent City is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Village has purchased commercial insurance for medical benefits claims and participates in the Michigan Local Unit Self-Insurance Pool for claims relating to general liability, excess liability,

Village of Kent City

NOTES TO FINANCIAL STATEMENTS-CONTINUED

February 28, 2006

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY-CONTINUED

2. Risk Management-continued

auto liability, trunkline liability, errors and omissions, physical damage(equipment, buildings and contents) and workers compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The local units in the State of Michigan established and created a trust fund, known as the Michigan Local Unit Self-Insurance Pool (Pool) pursuant to the provisions of Act 138 of the Michigan Public Acts of 1982. The Pool is to provide for joint and cooperative action relative to Members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to local units and related local unit activities with the state. The Village of Kent City became a member of the pool in 1990.

NOTE C- DEPOSITS

1. Deposits

All deposits are in several financial institutions and are carried at cost; the deposits are composed of checking accounts and savings accounts.

As of February 28, 2006, the Village's carrying amount of deposits was \$984,679, and the bank balance was \$1,001,731. Of the bank balance, \$590,624 was covered by federal depository insurance, the remainder being uninsured.

2. Investment Policy

Michigan Compiled Laws, Section 129.91, authorizes the local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptance of United States banks; prime commercial paper; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The investment policy adopted by the Village in accordance with Public Act 20 of 1943 (as amended) authorized investments in demand depository accounts, certificates of deposit, or bonds, securities or other obligations of the United States or an agency or instrumentality of the United States so long as the principal and interest on said bonds, securities or obligations are fully guaranteed by the United States.

Village of Kent City

NOTES TO FINANCIAL STATEMENTS-CONTINUED

February 28, 2006

NOTE C- DEPOSITS-CONTINUED

2. Investment Policy-continued

All financial institutions approved for deposit of Village funds (whether in demand depository accounts, certificates of deposit, or otherwise) must be either state or nationally chartered banks or state or federally chartered savings and loan associations, savings banks, or credit unions whose deposits are insured by an agency of the United States government and that maintains a principal officer or branch office in Michigan under state or federal law. No funds may be invested in any financial institution that is not eligible to be a depository of State funds under any state or federal law or rule.

3. Summary

At year-end, the Village's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-Type Activities	Total Primary Government
Cash and cash equivalents	\$ 533,489	\$ 230,296	\$ 763,785
Restricted assets	-	220,894	220,894
Total	\$ 533,489	\$ 451,190	\$ 984,679

4. Restricted Assets

Cash in the enterprise fund is restricted primarily under a bond ordinance associated with the Series 1998B bonds. Amounts have been restricted for the following purposes at February 28, 2006;

Business-type activities

Sewer Fund

Operations and maintenance (bond ordinance)	\$ 3,764
Bond and Interest Redemption Fund (bond ordinance)	124,618
Bond Reserve Fund (bond ordinance)	56,000
Sewer Replacement (bond ordinance)	16,512
Sludge Reserve (village ordinance)	20,000
	<u>\$ 220,894</u>

After meeting the operation and maintenance and bond and interest redemption requirements of the bond ordinances, the Bond Reserve account shall be funded in the amount of \$7,000 annually until an amount equal to the Bond Reserve Requirement has been accumulated. The Village is required to fund the Sewer Replacement account in an amount of at least \$13,000 each year. The Village funds the Sludge Reserve at \$4,000 each year, to be used for sewer pond cleaning.

Village of Kent City

NOTES TO FINANCIAL STATEMENTS-CONTINUED

February 28, 2006

NOTE D-CAPITAL ASSETS

Capital asset activity for the year ended February 28, 2006 was as follows:

<u>Governmental Activities</u>	<u>Balance March 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance Feb. 28, 2006</u>
Capital assets, not being depreciated:				
Land	\$ 66,894	\$ -	\$ -	\$ 66,894
Total capital assets, not being depreciated	<u>66,894</u>	<u>-</u>	<u>-</u>	<u>66,894</u>
Capital assets, being depreciated:				
Buildings	125,444	-	-	125,444
Land improvements	40,966	-	-	40,966
Equipment	171,961	44,297	-	201,258
Office equipment	<u>12,684</u>	<u>-</u>	<u>-</u>	<u>12,684</u>
Total capital assets, being depreciated	351,055	44,297	15,000	380,352
Less accumulated depreciation for:				
Buildings	31,108	2,511	-	33,619
Land improvements	20,675	1,607	-	22,282
Equipment	120,840	6,449	15,000	112,289
Office equipment	<u>4,970</u>	<u>2,303</u>	<u>-</u>	<u>7,273</u>
Total accumulated depreciation	<u>177,593</u>	<u>12,870</u>	<u>15,000</u>	<u>175,463</u>
Total capital assets, being depreciated, net	<u>173,462</u>	<u>31,427</u>	<u>-</u>	<u>204,889</u>
Capital Assets, net	<u>240,356</u>	<u>31,427</u>	<u>-</u>	<u>271,783</u>
<u>Business-Type Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	<u>167,115</u>	<u>-</u>	<u>-</u>	<u>167,115</u>
Total capital assets, not being depreciated	167,115	-	-	167,115
Capital assets being depreciated:				
Sewer systems and lines	4,569,847	-	-	4,569,847
Buildings	20,263	-	-	20,263
Equipment	<u>80,852</u>	<u>-</u>	<u>-</u>	<u>80,852</u>

Village of Kent City

NOTES TO FINANCIAL STATEMENTS-CONTINUED

February 28, 2006

NOTE D-CAPITAL ASSETS - CONTINUED

	<u>Balance March 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance Feb. 28, 2006</u>
<u>Business-Type Activities: continued</u>				
Total capital assets, being depreciated	<u>4,670,962</u>	<u>-</u>	<u>-</u>	<u>4,670,962</u>
Less accumulated depreciation:				
Sewer systems and lines	1,568,786	113,761	-	1,682,547
Buildings	15,906	272	-	16,178
Equipment	<u>52,770</u>	<u>8,581</u>	<u>-</u>	<u>61,351</u>
Total accumulated depreciation	<u>1,637,462</u>	<u>122,614</u>	<u>-</u>	<u>1,760,076</u>
Total capital assets, being depreciated, net	<u>3,033,500</u>	<u>(122,614)</u>	<u>-</u>	<u>2,910,886</u>
Capital assets, net	<u>3,200,615</u>	<u>(122,614)</u>	<u>-</u>	<u>3,078,001</u>
Government activities:				
Depreciation				
Depreciation expense was charged to functions as follows:				
General government				\$ 3,248
Public safety				1,082
Public works				<u>8,540</u>
				<u>\$12,870</u>
Business-type activities:				
Depreciation				
Depreciation expense was charged to functions as follows:				
Sewer				<u>\$122,614</u>
				<u>\$122,614</u>

Village of Kent City

NOTES TO FINANCIAL STATEMENTS-CONTINUED

February 28, 2006

NOTE E-LONG TERM DEBT

Summary of Changes in Long-Term Liabilities

The following is a summary of long-term liabilities activity for the Village for the year ended February 28, 2006:

	<u>Balance</u> <u>March 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>Feb. 28, 2006</u>	<u>Due within</u> <u>one year</u>
Business-type activities:					
Revenue bonds	\$2,128,000	-	\$ 70,000	\$2,058,000	\$ 70,000
	<u>\$2,128,000</u>	<u>-</u>	<u>\$ 70,000</u>	<u>\$2,058,000</u>	<u>\$ 70,000</u>
Michigan Municipal Bond Authority-Series A (Limited Tax General Obligation) issued June 25, 1998. Due in annual installments of \$60,000 to \$80,000 plus interest at 2.25% through April 1, 2018					\$ 880,000
United States Department of Agriculture - Rural Development. Series B Refunding Bonds issued June 25, 1998. Due in annual installments of \$10,000 to \$70,000 plus interest at 4.5% through April 1, 2038					\$1,178,000
					<u>\$2,058,000</u>

The sewer revenue and revenue refunding bonds were issued pursuant to the Bond Authorizing Ordinance and in accordance with Act 94 of the Public Acts of Michigan of 1933, as amended, for the purpose of funding a portion of the cost of the acquisition and construction of improvements to the public sanitary sewer system. The 1998 Series A sewer revenue bonds (LTGO) and the 1998 Series B Sewer Revenue and Revenue Refunding Bonds were issued pursuant to the Bond Authorizing Ordinance and in accordance with Act 94 of the Public Acts of Michigan of 1933, as amended, for the purpose of funding a portion of the cost of the acquisition and construction of improvements to the public sanitary sewer system and refunding the Sewer System Junior Lien Revenue Bonds, Series II dated July 23, 1980.

The Village was in compliance in all material respects with all the revenue bond ordinances at February 28, 2006.

Village of Kent City

NOTES TO FINANCIAL STATEMENTS-CONTINUED

February 28, 2006

NOTE E-LONG TERM DEBT-CONTINUED

Annual debt service requirements to maturity for debt outstanding as of February 28, 2006 is as follows:

Year ending February 28, 2006	Business-type activities	
	Principal	Interest
2007	\$ 70,000	\$ 72,810
2008	72,000	71,010
2009	72,000	69,120
2010	77,000	67,230
2011	77,000	65,228
2012-2016	\$ 412,000	\$ 294,864
2017-2021	338,000	238,434
2022-2026	180,000	196,650
2027-2031	240,000	150,300
2032-2036	310,000	90,000
2037-2039	<u>210,000</u>	<u>18,900</u>
Total	<u>\$2,058,000</u>	<u>\$1,334,546</u>

NOTE F - RETIREMENT PLAN

The Village has established a Simple IRA plan for the benefit of its employees. All regular full time employees who have completed at least one full year of service and work at least 1,000 hours during a calendar year are eligible to participate for that year. The Village may make regular contributions equal to 3% of gross pay for eligible employees.

REQUIRED SUPPLEMENTAL INFORMATION

Village of Kent City
Budgetary Comparison Schedule
GENERAL FUND

Year Ended February 28, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with final Budget - Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 154,000	\$ 154,000	\$ 146,508	\$ (7,492)
State revenue sharing	90,000	90,000	94,348	4,348
Interest and rentals	6,000	6,000	15,032	9,032
Other revenue	<u>8,000</u>	<u>8,000</u>	<u>13,855</u>	<u>5,855</u>
Total Revenues	258,000	258,000	269,743	11,743
EXPENDITURES				
Legislative				
Governing body				
Salaries and wages	10,240	10,240	8,475	1,765
Transportation	250	250	113	137
Professional and contractual	10,000	10,000	4,290	5,710
Community promotion	2,500	2,500	2,261	239
Workshops and dues	1,500	1,500	930	570
Miscellaneous	<u>150</u>	<u>150</u>	<u>17</u>	<u>133</u>
	24,640	24,640	16,086	8,554
General government				
Elections				
Salaries and wages	500	555	555	-
Operating supplies	500	500	370	130
Professional and contractual	-	400	400	-
Printing and publishing	300	300	182	118
Miscellaneous	<u>120</u>	<u>120</u>	<u>31</u>	<u>89</u>
	1,420	1,875	1,538	337
Clerk				
Salaries and wages	25,690	25,690	25,081	609
Office supplies	2,079	2,314	2,228	86
Repairs and maintenance	840	840	224	616
Professional and contractual	8,048	8,788	8,647	141
Transportation	100	100	44	56
Printing and publishing	1,500	1,500	634	866
Utilities	2,772	2,772	2,312	460
Workshops and dues	500	500	55	445
Miscellaneous	<u>200</u>	<u>200</u>	<u>66</u>	<u>134</u>
	41,729	42,704	39,291	3,413
Treasurer				
Salaries and wages	12,000	12,000	12,000	-
Office supplies	1,403	1,538	1,349	189
Repairs and maintenance	480	480	127	353
Professional and contractual	480	850	770	80

The accompanying notes are an integral part of this statement.

Village of Kent City
Budgetary Comparison Schedule
GENERAL FUND-CONTINUED

Year ended February 28, 2006

	<u>Budgeted Amounts</u>		Actual	Variance with final Budget -Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Treasurer-Cont.				
Transportation	300	300	215	85
Printing and publishing	500	500	-	500
Utilities	1,584	1,584	1,321	263
Workshops and dues	350	350	154	196
Miscellaneous	150	150	30	120
	<u>17,247</u>	<u>17,752</u>	<u>15,966</u>	<u>1,786</u>
Total general government	60,396	62,331	56,795	5,536
Public Safety				
Professional and contractual	10,000	10,000	9,213	787
Utilities	435	435	435	-
	<u>10,435</u>	<u>10,435</u>	<u>9,648</u>	<u>787</u>
Zoning administrator				
Salaries and wages	23,400	23,400	23,350	50
Office supplies	1,683	1,873	1,804	69
Repairs and maintenance	680	680	181	499
Professional and contractual	3,680	3,680	567	3,113
Utilities	2,244	2,244	1,872	372
Transportation	200	200	-	200
Printing and publishing	200	200	-	200
Workshops	500	500	-	500
Miscellaneous	150	150	-	150
	<u>32,737</u>	<u>32,927</u>	<u>27,774</u>	<u>5,153</u>
Planning commission and board of appeals				
Salaries and wages	5,000	5,000	2,940	2,060
Professional and contractual	5,500	5,500	1,409	4,091
Printing and publishing	1,000	1,000	166	834
Workshops	500	500	-	500
Miscellaneous	100	100	36	64
	<u>12,100</u>	<u>12,100</u>	<u>4,551</u>	<u>7,549</u>
Total public safety	55,272	55,462	41,973	13,489
Public Works				
Department of public works				
Salaries and wages	26,500	26,500	24,819	1,681
Employee benefits	750	750	750	-
Operating supplies	850	1,120	1,017	103

The accompanying notes are an integral part of this statement.

Village of Kent City
Budgetary Comparison Schedule
GENERAL FUND-CONTINUED

Year ended February 28, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Public Works-cont.				
Department of public works				
Gasoline	4,000	4,505	4,500	5
Repairs and maintenance	15,000	15,000	7,863	7,137
Outside services	16,450	16,635	11,203	5,432
Utilities	1,500	1,500	1,355	145
Workshops	950	950	500	450
Miscellaneous	<u>500</u>	<u>500</u>	<u>-</u>	<u>500</u>
	66,500	67,460	52,007	15,453
Street lighting				
Public utilities	<u>12,000</u>	<u>12,000</u>	<u>11,651</u>	<u>349</u>
Total public works	78,500	79,460	63,658	15,802
Other				
Insurance and bonds	12,000	12,000	11,407	593
Health insurance	7,000	7,000	4,237	2,763
Retirement contribution	1,150	1,240	1,203	37
FICA	<u>-</u>	<u>9,560</u>	<u>9,659</u>	<u>(99)</u>
	20,150	29,800	26,506	3,294
Capital outlay				
General	<u>35,000</u>	<u>45,000</u>	<u>44,297</u>	<u>703</u>
TOTAL EXPENDITURES	<u>273,958</u>	<u>296,693</u>	<u>249,315</u>	<u>47,378</u>

The Notes to Financial Statements are an integral part of this statement.

Village of Kent City

BUDGETARY COMPARISON SCHEDULE
MAJOR STREET FUND

Year ended February 28, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental revenue				
State shared revenue				
Gas and weight tax	\$ 60,000	\$ 60,000	\$ 59,713	\$ (287)
Interest earnings	1,000	1,000	3,880	2,880
Other revenue	-	-	3,726	3,726
TOTAL REVENUES	61,000	61,000	67,319	6,319
Expenditures				
Construction	30,000	30,000	-	30,000
Routine maintenance				
Salaries and wages	3,000	3,475	3,472	3
Repairs and maintenance	2,000	2,000	1,276	724
Contracted services	6,000	35,420	35,418	2
Rentals	4,500	6,205	6,202	3
	15,500	47,100	46,368	732
Winter maintenance				
Salaries and wages	4,000	4,000	2,253	1,747
Repairs and maintenance	3,500	3,500	1,564	1,936
	7,500	7,500	3,817	3,683
Administration, engineering and recordkeeping				
Professional services	4,500	4,500	1,417	3,083
TOTAL EXPENDITURES	57,500	89,100	51,602	37,498
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	3,500	(28,100)	15,717	43,817
Other financing sources (uses)				
Operating transfers in (out)	-	-	-	-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	3,500	(28,100)	15,717	43,817
Fund balance - March 1	212,328	212,328	212,328	-
Fund balance - February 28	\$ 215,828	\$ 184,228	\$ 228,045	\$ 43,817

The accompanying notes are an integral part of this statement.

Village of Kent City

BUDGETARY COMPARISON SCHEDULE

LOCAL STREET FUND

Year ended February 28, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental revenue				
State shared revenue				
Gas and weight tax	\$ 15,000	\$15,000	\$ 16,398	\$ 1,398
Interest earnings	630	630	1,036	406
Other revenue	-	-	-	-
TOTAL REVENUES	<u>15,630</u>	<u>15,630</u>	<u>17,434</u>	<u>1,804</u>
Expenditures				
Construction	-	-	-	-
Routine maintenance				
Salaries and wages	2,000	2,000	1,761	239
Repairs and maintenance	1,500	1,500	810	690
Outside services	4,000	23,500	22,287	1,213
Rentals	<u>3,000</u>	<u>5,110</u>	<u>5,108</u>	<u>2</u>
	<u>10,500</u>	<u>32,110</u>	<u>29,966</u>	<u>2,144</u>
Winter maintenance				
Salaries and wages	2,000	2,615	2,615	-
Repairs and maintenance	<u>2,000</u>	<u>2,000</u>	<u>1,334</u>	<u>666</u>
	<u>4,000</u>	<u>4,615</u>	<u>3,949</u>	<u>666</u>
Administration, engineering and recordkeeping				
Professional services	<u>1,500</u>	<u>1,500</u>	<u>1,416</u>	<u>84</u>
TOTAL EXPENDITURES	<u>16,000</u>	<u>38,225</u>	<u>35,331</u>	<u>2,894</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(370)	(22,595)	(17,897)	4,698
Other financing sources (uses)				
Operating transfers in (out)	-	-	-	-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(370)	(22,595)	(17,897)	4,698
Fund balance - March 1	<u>64,729</u>	<u>64,729</u>	<u>64,729</u>	-
Fund balance - February 28	<u>\$ 64,359</u>	<u>\$ 42,134</u>	<u>\$ 46,832</u>	<u>\$ 4,698</u>

The accompanying notes are an integral part of this statement.

Village of Kent City
BUDGETARY COMPARISON SCHEDULE
DOWNTOWN DEVELOPMENT AUTHORITY

Year ended February 28, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues				
Property taxes	\$ 23,275	\$ 23,275	\$ 24,854	\$ 1,579
Interest	<u>300</u>	<u>300</u>	<u>350</u>	<u>50</u>
TOTAL REVENUES	23,575	23,575	25,204	1,629
Expenditures				
Administration, engineering and recordkeeping				
Salaries and wages	2,500	2,500	100	2,400
Office supplies	50	50	15	35
Professional services	15,000	15,000	1,831	13,169
Publication	60	60	-	60
Miscellaneous	<u>120</u>	<u>120</u>	<u>63</u>	<u>57</u>
TOTAL EXPENDITURES	<u>17,730</u>	<u>17,730</u>	<u>2,009</u>	<u>15,721</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	5,845	5,845	23,195	17,350
Other financing sources (uses)				
Operating transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	5,845	5,845	23,195	17,350
Fund balance - March 1	<u>94,373</u>	<u>94,373</u>	<u>94,373</u>	<u>-</u>
Fund balance - February 28	<u>\$100,218</u>	<u>\$100,218</u>	<u>\$117,568</u>	<u>\$ 17,350</u>

The accompanying notes are an integral part of this statement.

OTHER SUPPLEMENTAL INFORMATION

Village of Kent City

SCHEDULE OF INDEBTEDNESS

February 28, 2006

Enterprise fund

Sewer Revenue Bonds (LTGO), Series 1998A, issued June 25, 1998

<u>Amount of issue</u>	<u>Interest rate</u>	<u>Date of maturity</u>	<u>2005</u>	<u>2006</u>	<u>Annual interest payable</u>
\$1,260,000	2.25%	4/1/05	60,000	-	-
		4/1/06	60,000	60,000	19,800
		4/1/07	60,000	60,000	18,450
		4/1/08	60,000	60,000	17,100
		4/1/09	65,000	65,000	15,750
		4/1/10	65,000	65,000	14,288
		4/1/11	65,000	65,000	12,826
		4/1/12	65,000	65,000	11,362
		4/1/13	70,000	70,000	9,900
		4/1/14	70,000	70,000	8,326
		4/1/15	70,000	70,000	6,750
		4/1/16	75,000	75,000	5,176
		4/1/17	75,000	75,000	3,488
		4/1/18	80,000	80,000	1,800
			940,000	880,000	145,016

Sewer Revenue and Revenue Refunding Bonds, Series 1998B, issued June 25, 1998

\$1,240,000	4.5%	4/1/05	10,000	-	-
		4/1/06	10,000	10,000	53,010
		4/1/07	12,000	12,000	52,560
		4/1/08	12,000	12,000	52,020
		4/1/09	12,000	12,000	51,480
		4/1/10	12,000	12,000	50,940
		4/1/11	14,000	14,000	50,400
		4/1/12	14,000	14,000	49,770
		4/1/13	14,000	14,000	49,140
		4/1/14	14,000	14,000	48,510
		4/1/15	16,000	16,000	47,880
		4/1/16	16,000	16,000	47,160

The accompanying notes are an integral part of this statement.

Village of Kent City

SCHEDULE OF INDEBTEDNESS - CONTINUED

February 28, 2006

Enterprise fund - Continued

Sewer Revenue and Revenue Refunding Bonds, Series 1998B, issued June 25, 1998-Continued

<u>Amount of issue</u>	<u>Interest rate</u>	<u>Date of maturity</u>	<u>2005</u>	<u>2006</u>	<u>Annual interest payable</u>
\$1,240,000	4.5%	4/1/17	16,000	16,000	46,440
		4/1/18	16,000	16,000	45,720
		4/1/19	30,000	30,000	45,000
		4/1/20	30,000	30,000	43,650
		4/1/21	30,000	30,000	42,300
		4/1/22	30,000	30,000	40,950
		4/1/23	40,000	40,000	39,600
		4/1/24	40,000	40,000	37,800
		4/1/25	40,000	40,000	36,000
		4/1/26	40,000	40,000	34,200
		4/1/27	50,000	50,000	32,400
		4/1/28	50,000	50,000	30,150
		4/1/29	50,000	50,000	27,900
		4/1/30	50,000	50,000	25,650
		4/1/31	60,000	60,000	23,400
		4/1/32	60,000	60,000	20,700
		4/1/33	60,000	60,000	18,000
		4/1/34	60,000	60,000	15,300
		4/1/35	70,000	70,000	12,600
		4/1/36	70,000	70,000	9,450
		4/1/37	70,000	70,000	6,300
		4/1/38	<u>70,000</u>	<u>70,000</u>	<u>3,150</u>
			<u>1,188,000</u>	<u>1,178,000</u>	<u>1,189,530</u>
			<u>\$2,128,000</u>	<u>\$2,058,000</u>	<u>\$1,334,546</u>

CALVIN D. MEEUSEN, C.P.A., PLLC

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Members of the Village Council
Village of Kent City, Michigan

1. I have audited the financial statements of the governmental activities, the business type activities and each major fund of the Village of Kent City as of and for the year ended February 28, 2006, which collectively comprises the Village of Kent City's basic financial statements and have issued my report thereon dated May 9, 2006. I conducted my audit with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

2. As part of obtaining reasonable assurance about whether the Village of Kent City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

3. In planning and performing my audit, I considered the Village of Kent City's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Village of Kent City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. Reportable conditions are described in the accompanying schedule of findings as item 01-1.
4. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may

occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that the reportable condition described above is not a material weakness.

5. This report is intended for the information of management and the Village Council and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

 C.P.A. PLLC

Calvin D. Meeusen, C.P.A., PLLC
Grand Haven, Michigan
May 9, 2006

Village of Kent City

SCHEDULE OF FINDINGS

Year ended February 28, 2006

FINDINGS - FINANCIAL STATEMENT AUDIT

REPORTABLE CONDITION

01-1 Cash Receipts and Cash Disbursements

Condition: Controls over cash receipts and disbursements are inadequate because of the lack of segregation of duties due to limited numbers of accounting personnel.

Criteria: Accounting functions should be delegated to different personnel in such a way that one can act as a "check" on another.

Effect: The integrity of the accounting records could be compromised.

Cause: Virtually all of the important accounting functions are done by only one person. The Village of Kent City has traditionally operated very "lean" in the accounting area. The relatively small size of the Village does not justify the hiring of additional accountants.

Recommendation: Management should review the cash receipts and disbursements for reasonableness and completeness on a regular basis. Cash disbursements over a prescribed dollar amount should be reviewed by the Village Council.

Response: Management concurs with the recommendation. This has been done in the past and will continue in the future.

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May 9, 2006

Honorable Village Council
Village of Kent City
Kent County, Michigan

In connection with my examination of the financial statements as of February 28, 2006, I have reviewed the accounting policies and procedures employed by the Village and the internal controls in effect. As a result of this review, I wish to make certain comments and recommendations.

I have examined the financial statements of the Village of Kent City for the year ended February 28, 2006, and have issued my report thereon dated May 9, 2006. As part of my examination, I made a study and evaluation of the system of internal accounting control of the Village of Kent City to the extent I considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office "Standards for Audit of Governmental Organizations, Programs, Activities and Functions". The purpose of my study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of the Village of Kent City is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

My study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, I do not express an opinion on the system of internal accounting control of the Village taken as a whole. However, my study and evaluation disclosed that the internal accounting controls are not adequate to reduce to a relatively low risk that errors or irregularities in amounts that would be material in relation to the financial statements of the Village of Kent City may occur and not be detected within a timely period. This is because of a lack of segregation of duties due to the limited number of accounting personnel. Accordingly, substantive testing has been increased to mitigate this situation.

Honorable Village Council
Village of Kent City

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A budget is required by the State Constitution and state statutes and is the only basis for spending. A local unit cannot overspend its adopted budget unless a change in the budget is approved by the Council. Any amendment to the adopted budget should be made no later than the last day of the fiscal year and any transfer of monies between funds, except those authorized by statute, should be held to an absolute minimum and should be authorized by resolution of the Village and recorded in the Council minutes.

In conclusion, I wish to state that all of the comments and recommendations are intended to be only of a constructive nature. I am sure they will help you to improve your accounting system and financial operation. I will be available to meet with you at any time in order to discuss the above comments and recommendations.

Respectfully submitted,

 C.P.A. PLLC

Calvin D. Meeusen, C.P.A., PLLC